2/14/89 A6910-1

National Association of Purchasing Management®

Report On Business®
February 6, 1989
Volume 7, Number 2

Index Falls to 53.2%

New Export Order Growth Continues

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

January Report

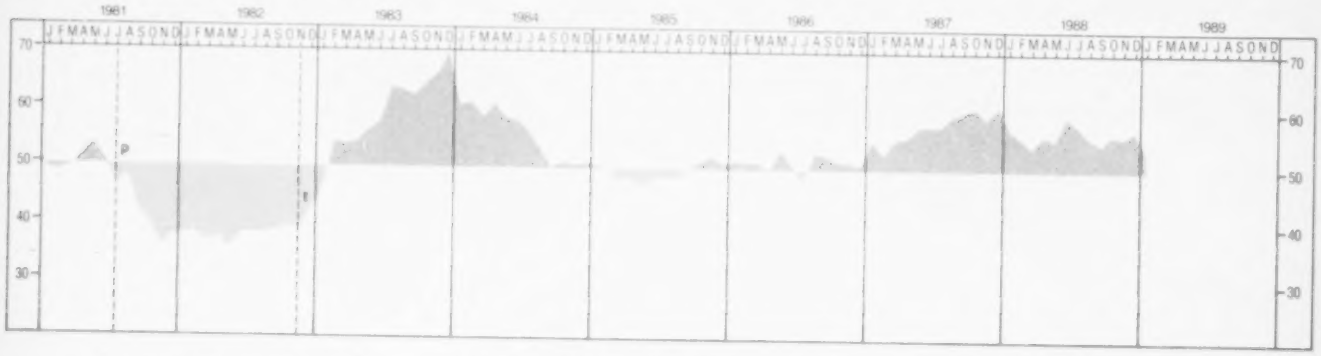
The economy continued to grow in January, but at a significantly slower rate than in December, say the nation's purchasing executives in their latest ***Report on Business.*** The rate of growth in **Production** slipped to the lowest level since September 1988 and the **New Order** growth rate fell to its lowest in over two years. **Inventories** declined sharply in January after increasing in November and December.

New Export Orders continued to expand in January, maintaining the brisk pace of growth in December. Of those members who export, 28% reported higher export orders, down only slightly from 30% in December. The 5% reporting lower export orders is also down slightly from the 6% reported last month.

Employment, which had increased sharply for the past seven months, just barely registered an increase in January. **Vendor Deliveries** continued to slow but at a lesser pace than most of last year. The rate of growth in price increases rose in January after registering six consecutive months of declining growth.

The ***Report*** was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "If December exited 1988 like a lion, January entered 1989 like a lamb. Although still growing at a healthy rate, the economy may have signaled the first signs of the long anticipated slowing."

PURCHASING MANAGERS' INDEX



Purchasing Managers' Index

January	57.3	August	55.7
February	55.7	September	54.7
March	54.0	October	56.2
April	56.0	November	55.9
May	55.5	December	57.3
June	59.2	January '89	53.2
July	57.9		

The **Purchasing Managers' Index** fell sharply in January to 53.2% from 57.3% in December. **Both numbers reflect an update by the U.S. Department of Commerce of the seasonal adjustment factors used to calculate the Purchasing Managers' Indexes as well as the diffusion indexes for all other indicators included in the January *Report on Business*.**

Bretz added, "Although the index at 53.2% is significantly lower than December, it still marks the 30th consecutive month this leading indicator has exceeded 50%. However, the 53.2% is the lowest registered in two years (52.6% in February 1987)." A reading above 50 indicates that the economy is generally expanding; below 50, that the economy is generally declining.

Data and method of presentation

The *Report on Business* is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

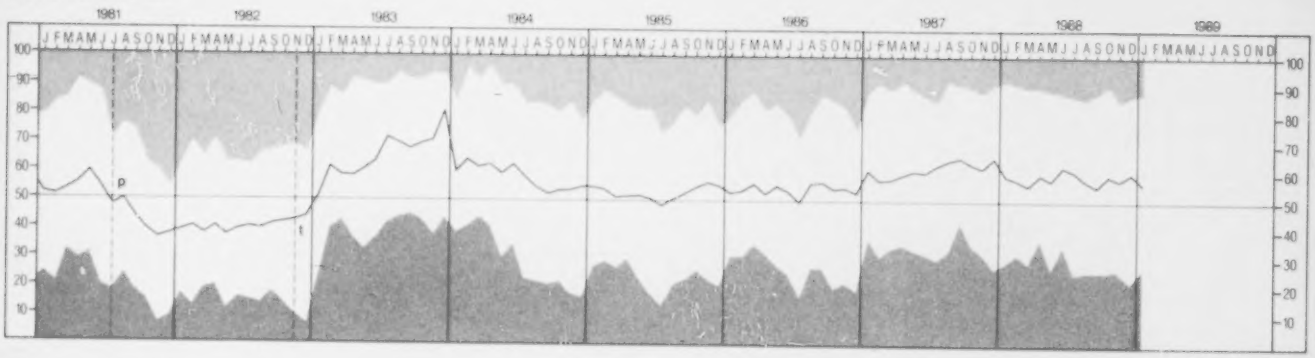
Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows:

- the percent reporting each response,
- the net difference between the number of responses in the positive economic direction (higher, better — and slower for vendor deliveries) and the negative economic direction (lower, worse — and faster for vendor deliveries),
- the diffusion index.

The charts provide a basis for comparing current data with the historical pattern. The dotted vertical lines on each chart indicate for the period shown the official peak ("P" — July 1981) and trough ("T" — November 1982) of the economy as determined by the National Bureau of Economic Research. The percentage of responses in the positive economic direction are shown in blue, the negative in red, and the same in white. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses, plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

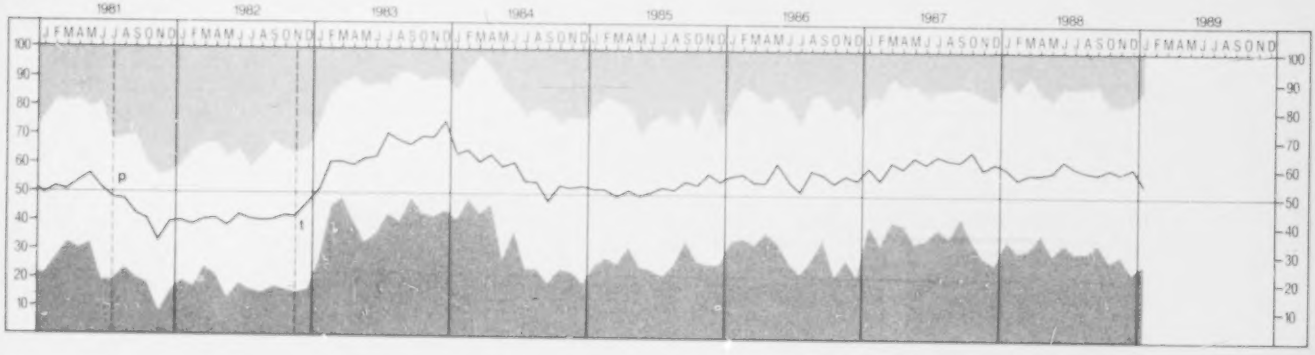
PRODUCTION



January was the 30th consecutive month in which Production increased. However, the seasonally adjusted Production index fell to 56.2%, significantly lower than the vigorous pace registered in December (60.0%) and the lowest since September (55.5%).

Production	%Better	%Same	%Worse	Net	Index
January	27	61	12	+15	56.2
December	22	65	13	+ 9	60.0
November	27	58	15	+12	57.8
October	26	65	9	+17	59.1

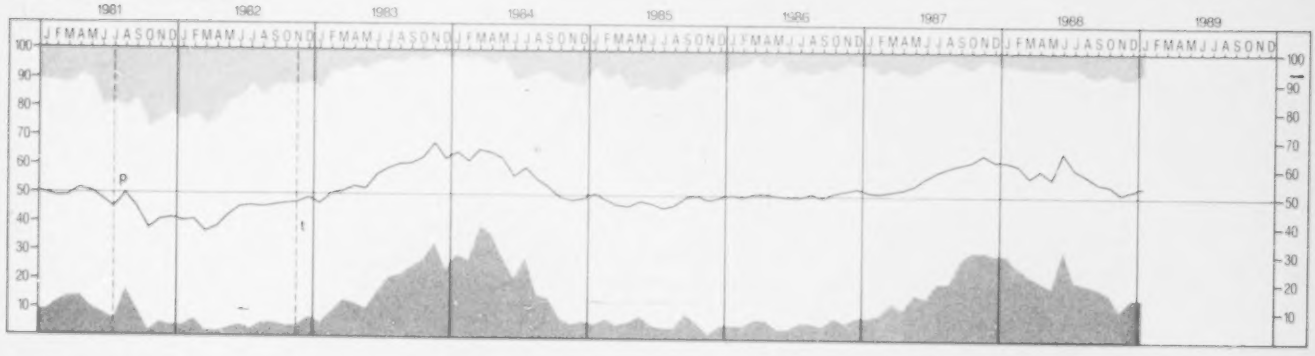
NEW ORDERS



New Orders increased in January for the 44th consecutive month. However, the New Orders index declined meaningfully to 54.5% from 60.0% in December, the lowest since October 1986 (also 54.5%). The growth rate of New Export Orders, a major contributor to the excellent economy last year, continued to show brisk growth.

New Orders	%Better	%Same	%Worse	Net	Index
January	27	51	12	+15	54.5
December	24	59	17	+ 7	60.0
November	30	52	18	+12	58.4
October	28	54	18	+10	58.9

VENDOR DELIVERIES



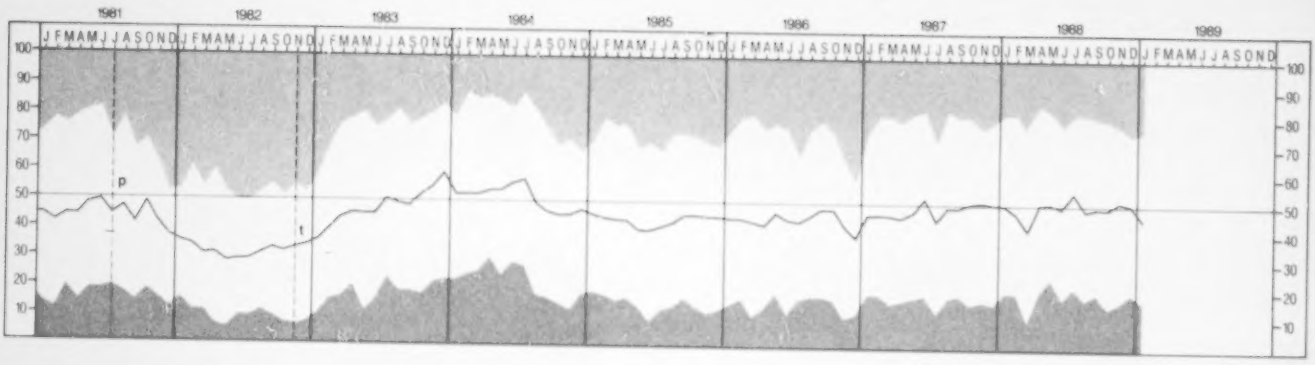
Vendor Deliveries slowed for the 28th consecutive month. Although the rate of slowing, a sign of strength in the economy, has increased slightly for the third consecutive month, those rates have lessened considerably from the first three quarters of 1988 and may be signaling a growing parity between demands and production capacity.

Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
January	15	79	6	+ 9	54.0
December	15	77	8	+ 7	52.6
November	11	81	8	+ 3	51.6
October	17	77	6	+11	54.6

IN SHORT SUPPLY:

Aluminum (16th consecutive month), **Copper** (5th consecutive month), **Nickel** (1st time since September; used heavily in making stainless steel, plating metals and batteries), **Steel** (19th time in 21 months), **Zinc** (1st time since May; used heavily in metal alloys and as a protective coating for metals), **Bleached Paperboard** (7th consecutive month), **Printing Paper** (2nd consecutive month), **Plastic Resins** (8th time in 9 months), **Polyethylene** (9th consecutive month; used heavily in making packaging materials and paper coatings), **Fiber Glass, Acrylic Acid** (6th time in 7 months; used in manufacturing plastics), **Caustic Soda/Soda Ash** (20th consecutive month; used heavily in paper-making, petroleum refining and soap-making), **Ethylene** (9th time in 10 months; used heavily in making ethylene oxide, plastic resins and glycols), **Ethylene Oxide** (11th consecutive month), **Ethylene Glycol** (6th time in 8 months), **Phenol** (10th consecutive month; used heavily in making phenolic resins), **Titanium Dioxide** (18th consecutive month; lead-free pigment used as a whitener in coatings, paints, paper and other industrial applications), **Rayon** (3rd consecutive month), **Bearings** (6th consecutive month), **DRAMs** (2nd time in 3 months; dynamic electronic memory devices used heavily in computers).

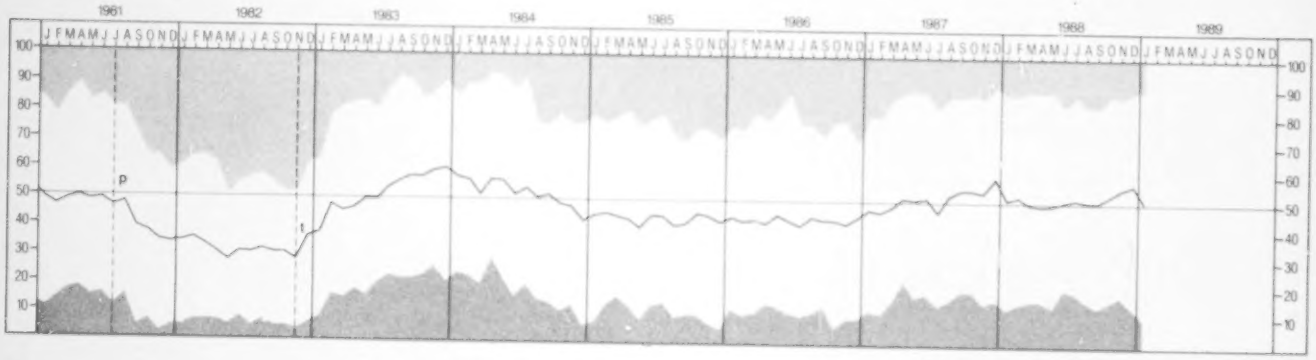
INVENTORIES



Inventories declined in January for the first time since October, after considering normal seasonal variations. The Inventories index at 45.5%, was down sharply from 50.8% in December and is the lowest since March 1988 (41.8%). The decline also suggests that the modest inventory buildup in December, to selectively hedge against announced January price increases, was worked down in January.

Inventories	%Higher	%Same	%Lower	Net	Index
January	17	59	24	−7	45.5
December	20	55	25	−5	50.8
November	17	61	22	−5	51.8
October	15	65	20	−5	49.5

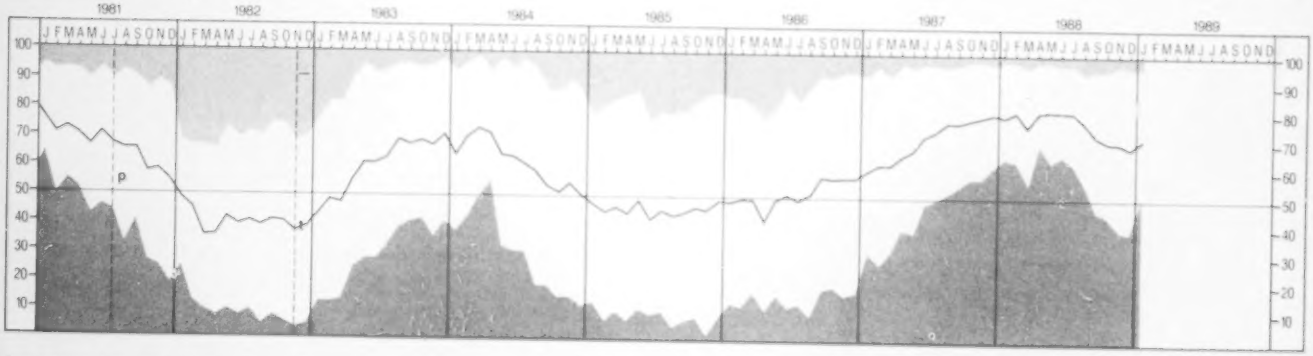
EMPLOYMENT



Employment rose in January for the eighth consecutive month. But the Employment index (50.5%) is the lowest since May 1988 (49.4%). This lower growth rate may well be another precursor of slowing growth in the economy.

Employment	%Higher	%Same	%Lower	Net	Index
January	10	80	10	0	50.5
December	14	75	11	+3	56.8
November	18	69	13	+5	55.2
October	16	72	12	+4	53.0

COMMODITY PRICES



January marked the 30th consecutive month of price increases. After six consecutive months of declining rate of growth in price increases, the trend reversed itself. The Price index increased to 71.6%, up from 68.6% in December. January, more than any other month of the year, is the time for annual price increases. Nevertheless, the number of commodities reported as higher priced is significantly less than reported over the past year.

Prices	%Higher	%Same	%Lower	Net	Index
January	51	46	3	+48	71.6
December	39	58	3	+36	68.6
November	40	58	2	+38	70.2
October	45	51	4	+41	70.4

UP IN PRICE:

Aluminum (22nd time in 24 months; some reports of price decreases), **Lead** (2nd consecutive month; used heavily in making paints, petroleum, pipe and batteries), **Nickel** (8th time in 11 months; used heavily in making stainless steel, plating metals and batteries), **Steel** (28th time in 29 months), **Zinc** (12th time in 13 months; used heavily in metal alloys and as a protective coating for metals), **Bearings** (6th time in 7 months), **Castings** (6th consecutive month), **Printing Paper** (22nd time in 25 months), **Polyethylene** (18th time in 20 months; used heavily in making packaging material and paper coatings), **Plastic Products** (20th time in 21 months), **Plastic Resins** (17th time in 18 months; used heavily in making phenolic resins), **Rubber, Fiber Glass, Benzene** (2nd consecutive month; used heavily in making medicinal chemicals, dyes, varnishes, lacquers and resins), **Caustic Soda/Soda Ash** (26th consecutive month), **Phenol** (4th time in 7 months), **Polyester** (2nd consecutive month), **Rayon** (2nd time in 3 months), **Natural Gas** (4th time in 5 months), **Fuel Oil** (2nd consecutive month).

DOWN IN PRICE:

Methanol (reported up in price in November for 10th time in 12 months; used heavily as a solvent and in synthesizing other chemicals).

BUYING POLICY

In general, lead times declined in January. Members reporting lead times in the meaningful 6 months and longer category for Capital Expenditures rose to 57%, up only slightly from 56% in December. However, lead times for non-custom Capital Expenditures decreased with 20% of members reporting lead times of 30 days and less, up considerably from 14% last month and the most since May 1987 (also 20%). Lead times for Production Materials declined with 84% of purchasers reporting lead times of 60 days or less, up from 79% last month, and the most since January 1987 (also 84%). Lead times for Maintenance, Repair and Operating (MRO) Supplies were also shorter, with 85% of members indicating lead times of 30 days or less, up from 82% in December.

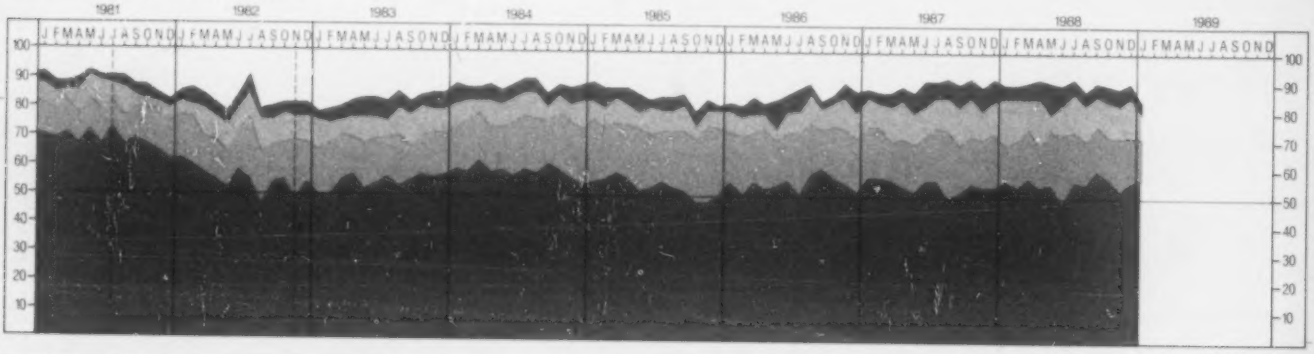
Percent Reporting

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
January	16	4	8	15	57
December	9	5	14	16	56
November	11	6	11	19	53
October	10	8	12	15	57

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
January	16	37	31	11	5
December	16	33	30	15	6
November	17	40	21	16	6
October	15	42	23	15	5

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
January	38	47	11	3	1
December	34	48	13	4	1
November	40	46	8	4	2
October	38	42	13	5	2

CAPITAL EXPENDITURES



Commodity Report
January, 1989

PACKAGING
Prepared by the NAPM Packaging Committee. Chair: Carl Dirkse, C.P.M., S.C. Johnson & Son, Inc., Racine, WI.

GENERAL: The packaging markets are beginning to stabilize somewhat, both in price and availability. The area causing the most problems for buyers is folding cartons.

METAL CANS: Supply is adequate, but prices are increasing due to steel price increases.

FIBRE CANS: Very few availability problems. A few price increases are reported due to raw material increases.

GLASS: Prices are quite stable; supply is adequate; business is still being lost to plastic.

MOLDED PLASTICS: Resin availability has improved somewhat. Price increases are slowing down and there is some talk of decreases on polypropylene. Polyethylene is still a sellers' market. Molders are busy, but capacity is available. Recyclable and degradable plastics are becoming important issues.

FILMS: Supply is tight, but improving somewhat. Fewer price increases are anticipated in 1989.

LAMINATED STOCK: Supply is adequate to tight. Price increases are being experienced due to raw material increases.

METAL DRUMS: Supply continues to be adequate. Some prices are going up due to steel increases.

FIBRE DRUMS: Supply is adequate with some price increase due to board increases.

FOLDING CARTONS: This has been a sleepy market for years. But now supply is very tight, lead times lengthening, and prices are increasing. Tight supply and increasing prices are forecast for 1989.

CORRUGATED: As this is written, the Yellow Sheet still shows $410/ton and no one seems to be following Stone's lead on a price increase. Buyers are resisting; one even talks of a decrease. Supply is adequate.

BAGS: The picture varies by type of bag, but supply is tight to adequate, and some prices are increasing. Degradable plastic bags are entering the market. Plastic bags are being outlawed in some areas.

PAPER PRODUCTS
Prepared by the NAPM Paper Committee. Chair: Glenn Farber, C.P.M., Vanier Graphics Corp., Santee, CA.

GENERAL: Estimates place 1988 as another record production year at approximately 76.8MM tons — 3.2% above 1987. Mill profitability is skyrocketing with a jump of almost 50% in the third quarter.

NEWSPRINT: Readily available now and for the next 6 months, although a price increase is likely. Lead times are steady. There is some discounting now. Consumption is almost flat. Capacity will increase by 2MM tons in N.A. in the next 3 years.

UNCOATED GROUNDWOOD: Availability is normal with no allocation, which is likely to continue for 6 months. No change is occurring in deliveries or inventories, but prices are up.

COATED GROUNDWOOD: Grade is very tight and allocated. Deliveries and lead times are steady. Prices are steady now but may be up within 6 months. Imports are heavy.

UNCOATED FREE SHEET: Deliveries are normal and steady; some are on allocation, others not. Availability should increase as the year wears on. Inventories are steady. There will likely be one more try for a full price increase, with discounting later. Almost 1.4MM tons will be added to capacity in the next 3 years. Reprographic grades are very tight.

COATED FREE SHEET: All coateds are very tight and likely to remain so. The new supply is up 12% from last year. There will be little added U.S. capacity in the near future. Imports are up 32%. No change in lead times. Prices are up on some grades and steady on others. Feelings for the future are mixed.

BLEACHED BRISTOLS: Supply is normal to tight, with no change likely for 6 months. Responses are mixed on lead times. Inventories are decreasing. Prices are increasing with more to come. Availability of some items is unstable.

PAPERBOARD/LINERBOARD: Grade is very tight and allocated. There is no new capacity and lead times are long. No change in inventories. Paperboard prices are increasing. The Jan. 1 linerboard increase failed; the future is unclear.

This *REPORT ON BUSINESS* is published monthly by the National Association of Purchasing Management, Inc., 2055 East Centennial Circle, Post Office Box 22160, Tempe, Arizona 85285-2160. Telephone: 602/752-NAPM (752-6276). Telecopier: 602/752-7890. NAPM is the largest purchasing education and research organization in the United States, with close to 30,000 members. The REPORT has been issued by the Association each month since 1931, except for a brief hiatus during World War II. It is distributed 12 times a year to NAPM members. Additional subscriptions are $50 a year for members, $100 for nonmembers. Add $25 outside the United States, Canada and Mexico.

The next issue of *REPORT ON BUSINESS* will be available March 6, 1989.